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FISCAL IMPACT REPORT

SPONSOR Garcia, MP DATE TYPED 02/28/05 HB 1024/aHLC

SHORT TITLE Public Retirees Returning to Work SB _____

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			See narrative		

(Parenthesis () Indicate Expenditure Decreases)

Relates to: HB 16, HB 207, SB 788, SB 875

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HLC Amendments

The House Labor and Human Resources Committee amendments to House Bill 1024:

- 1) Clarify that the existing exemption from remittance of retired member contributions for post-retirement employment for chiefs-of-police and undersheriffs is not limited only to small local governments.
- 2) Will continue to allow a retired member to voluntarily suspend his or her pension in order to accrue additional or reciprocal service credit under PERA or another state system and re-retire in the future with enhanced retirement benefits

Synopsis of Original Bill

House Bill 1024 amends the PERA Act to significantly limit those PERA-affiliated public employers eligible to hire retired PERA members. Under HB 1024, retired members would only be

eligible for post-retirement employment with PERA-affiliated employers who are: 1) a municipality with a population of less than 20,000; or 2) a county with a population of less than 50,000. If an affiliated employer meets this requirement, the requirements under current law for remittance of retired member and employer contributions on behalf of the re-hired retiree apply.

Significant Issues

PERA has identified a number of policy issues with HB 1024:

- 1) Whether only PERA-affiliated employers who are municipalities with a population of less than 20,000 or counties with a population of less than 50,000 (small local governments) should be able to re-employ PERA retirees. HB 1024 will significantly limit those retired members who may return-to-work. Specifically, employers such as the City of Albuquerque and the State, will no longer be able to re-hire PERA retirees, unless the retiree chooses to suspend his or her pension.
- 2) Whether only PERA retirees who are re-employed by small local governments should be allowed to voluntarily suspend his or her pension in order to accrue additional or reciprocal service credit under PERA or another state system and re-retire in the future with enhanced retirement benefits. Under current law, a retiree may voluntarily suspend his or her pension in order to accrue additional or reciprocal service credit under PERA or another state system and re-retire in the future with enhanced retirement benefits. HB 1024 would preclude this option, which is cost neutral to the PERA Fund, and has always been available to PERA retirees.
- 3) Whether the existing exemption from remittance of retired member contributions for post-retirement employment for chiefs-of-police and undersheriffs should be limited to small local governments. As drafted, HB 1024 would limit the existing exemption from remittance of retired member contributions for post-retirement employment for chiefs-of-police and undersheriffs to municipalities with public affiliated employers with demographic personnel retention and recruitment issues, such as small municipalities (<20,000) and rural counties (<50,000).

FISCAL IMPLICATIONS

House Bill 1024 may have a positive fiscal impact on the Fund. Since removal of its earning limitation for retirees who return to work with affiliated-public employers, PERA has experienced historically heavier end-of-year retirements. For example, for the year 2004, PERA retired 1,878 of its members. The number of back-to-work-retirees has escalated from 363 on October 31, 2003 to 1,501 through December 31, 2004. The number of retirees who have returned to work correlates very closely with the increased retirements in 2004 and currently represents approximately 7% of annuitant payroll.

It is unknown whether removal of the earnings limitation for post-retirement employment will require PERA's actuaries to modify the retirement trend assumptions used for valuation purposes. Until PERA's actuaries have sufficient experience to determine the actuarial cost of the return-to-work provisions, it is still unknown what impact removal of the earnings limitation has had on the Fund. HB 1024 will significantly limit those retired members who may return-to-work. Under current law, an active member contemplating retirement can often secure post-retirement employment prior to terminating public employment, often with the same employer.

PERA is aware of attempts by its members to retire, begin receiving pension benefits, and continue rendering service under a “bridge” independent contract until they return to their previous employment. If curtailing a retiree’s ability to return to work and continue to receive their pension triggers later retirements, there may be a gain to the Fund.

ADMINISTRATIVE IMPLICATIONS

House Bill 1024 may have a positive administrative impact on PERA. Under current law, retirees remit nonrefundable retired member contributions when post-retirement earnings reach \$25,000. PERA must track and account for retiree contributions on an individual basis. Currently, PERA tracks contributions for 1,501 individual retirees. HB 1024 would significantly reduce the numbers of retirees eligible to return to work and significantly reduce the administrative tracking of their retired member contributions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 16, applicable to all retired members who return to work with affiliated public employers, amends the PERA Act to reinstate an earnings limitation of \$15,000 before suspension of pension benefits. HB 16 does not “grandfather” already employed retirees under the existing law regarding post-retirement employment with affiliated public employers.

House Bill 207 will reinstate an earnings limitation for retired members returning to work to \$30,000. The earnings limitation will not be applicable to retired members who are already employed by an affiliated-public employer prior to July 1, 2005, who will continue to make retired member contributions through December 31, 2006. Beginning January 1, 2007, the employer contribution rate for these retired members will be adjusted annually at the determination of PERA to cover the full actuarial cost to the Fund of their post-retirement employment.

Senate Bill 788 would exempt retired state police members and retired municipal police members from the PERA Act’s statutory 90-day separation from service requirement to temporarily fill certain vacant public safety positions, which result from an active employee’s activation or deployment to a federal call to active duty.

SB 875 raises the threshold for remitting nonrefundable retired member contributions for post-retirement earnings to \$30,000, and repeals the sunset provision for retired member contributions (December 31, 2006). SB 875 lengthens the separation from service requirement for post-retirement employment, including independent contractors, to 12 months.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

All PERA-affiliated employers will be able to employ PERA retirees, subject to the PERA Act’s return-to-work provisions. Retirees who return to work with public-affiliated employers will be required to remit nonrefundable retired member contributions when their post-retirement earnings reach \$25,000 through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA’s expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at the determination of PERA to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates.

AMENDMENTS

PERA suggests the following amendment on Page 5, lines 5 and 6, which would continue to allow a retired member to voluntarily suspend his or her pension in order to accrue additional or reciprocal service credit under PERA or another state system and re-retire in the future with enhanced retirement benefits:

- E. Notwithstanding ~~At any time during a retired member's subsequent employment pursuant to Subsection C of this section, any~~ the retired member may elect to suspend the pension.

GG/lg